

**Washington State Auditor's Office**  
**Audit Report**

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**University of Washington**

**Audit Period**  
**July 1, 1999 through June 30, 2000**

**Report No. 6207**

Issue Date  
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Washington \_\_\_\_\_  
***State Auditor***  
\_\_\_\_\_  
Brian Sonntag

# Audit Summary

## University of Washington July 1, 1999 through June 30, 2000

### ***ABOUT THE AUDIT***

This report contains the results of our annual independent audit of the University of Washington for the period July 1, 1999, through June 30, 2000.

Our work focused on determining whether the University complied with state laws and regulations and selected federal grant requirements. We evaluated internal controls established by management. We also performed audit procedures on specific areas that have potential for abuse and misuse of public resources.

### ***RESULTS***

University officials have designed internal controls to achieve objectives in three categories: effectiveness of operations, including performance goals and safeguarding of resources; reliability of financial reporting; and compliance with applicable laws and regulations.

In general, the University's internal controls allow officials to effectively operate the University and safeguard its resources. Our audit revealed no condition significant enough to be reported as a finding. However, we have made recommendations to University management for improving departmental internal controls over University Temporary Services timesheets, federal grant expenditures, cash receipts and petty cash. For the most part, the University complied with state laws and regulations and its own policies.

As part of our new statewide approach to issues, we reviewed construction-contracting practices at the University. We found the University has established practices and policies that guide compliance with applicable laws and regulations. We were able to identify several practices to share with other state agencies.

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# Description of the University

## University of Washington July 1, 1999 through June 30, 2000

### **ABOUT THE UNIVERSITY**

Founded on November 4, 1861, the University of Washington is one of the oldest state-supported institutions of higher education on the Pacific Coast. The University has three campuses and 16 major schools and colleges. The primary mission of the University is the preservation, advancement and dissemination of knowledge.

The University is governed by a 10-member Board of Regents, including a Student Regent, appointed by the Governor and confirmed by the state Senate. The University's biennial operating budget for 1999-01 is \$3.3 billion dollars. Its capital budget for the same period was \$313 million. The University employs approximately 3,500 instructional faculty members, 500 research faculty members and 18,000 staff members. It enrolls more than 33,000 students.

The Seattle campus has 220 major structures. Significant projects currently under construction include the Suzzallo Library Renovation (\$42.9 million) and the University of Washington Medical Center Pacific Tower Renovation (\$34.9 million). Other significant projects in the planning or design phase include the University of Washington Medical Center Surgery and Treatment Pavilion (\$90.5 million), the new Law School Building (\$74.9 million), the Electrical Engineering/Computer Science and Engineering Phase II (\$70 million), and the Tacoma Branch Campus Phase 2b (\$45 million).

The Tacoma campus opened a new permanent facility on September 27, 1997. Sited in Tacoma's historic warehouse district, it is the first new, permanent University of Washington campus to open since 1895. A permanent Bothell campus, co-located with Cascadia Community College near Bothell in King County, opened in the fall of 2000.

A highly rated research institution, the University received almost \$652 million in research-related grants and contracts during fiscal year 2000, with 72 percent of these awards coming from federal agencies. Since 1974, the University has ranked among the top five educational institutions in the United States with respect to receipt of total federal awards. In 1997, the most recent year for which government figures are available, the University ranked second in the nation among public and private universities in "Total Federal Obligations for Science and Engineering" and ranked first when considering only public universities. The single largest sponsoring agency for the University is the U.S. Department of Health and Human Services (HHS), with 47 percent of the total awards. Approximately two thirds of HHS awards support programs in the School of Medicine.

In fiscal year 2000, the University spent \$449 million in research and development funds received directly from the federal government and an additional \$38 million in federal funds passed through from other entities.

## **APPOINTED OFFICIALS**

Regents are appointed for six-year terms. An existing regent continues to serve until the Governor names a replacement or re-appoints the regent. The following regents provided oversight of University operations during the course of this audit period. Subsequent changes are also noted.

### **Board of Regents:**

President	Constance Proctor
Vice President	Ark G. Chin
Student Regent	John W. Amaya
	Jeffrey H. Brotman
	Mari J. Clack
	Daniel J. Evans
	William H. Gates
	Gerald Grinstein
	Michele (Shelley) Yapp
	Cindy Zehnder

### **Administrative Officials:**

President	Dr. Richard L. McCormick
Provost and Vice President for Academic Affairs	Dr. Lee Huntsman
Executive Vice President	Weldon Ihrig

Note: Student Regent John W. Amaya replaced Christopher S. Knaus effective June 1, 2000. Student Regents are appointed to a one-year term for the period June 1 to May 31.

## **ADDRESS**

University	Seattle, WA 98195
	(206) 543-2100
	Home Page: <a href="http://www.washington.edu">www.washington.edu</a>

# Audit Areas Examined

## University of Washington July 1, 1999 through June 30, 2000

In keeping with general auditing practices, we do not examine every portion of the University of Washington's financial activities during each audit. University operations occur in a highly decentralized environment. Revenues are receipted in more than 356 different locations and expenditures are approved and processed in more than 400 departments. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years.

The University has an internal audit staff of nine. Their mission is to evaluate and promote the University's system of internal controls, including effective and efficient operations through independent audits and consultations. We coordinate our audit efforts with the internal audit staff to compliment audit coverage while avoiding any duplication of efforts.

The following areas of the University were examined during this audit period:

### **LEGAL COMPLIANCE**

For each department selected for review, we audited compliance with state and University laws, regulations and policies. We also selected six University departments to test for compliance with federal regulations governing research grants. Areas tested in these departments were selected based on an analysis of the departments' activities and our assessment of the highest risk of noncompliance, misappropriation or misuse. Common issues included in department audits encompassed cash receipts, petty cash, purchasing, travel, equipment and payroll.

In addition, we audited the University's compliance with state laws and regulations in the following areas:

- Compliance with state and University guidelines regarding cash receipting (12 departments)
- Compliance with state and University guidelines regarding petty cash revolving funds (eight departments)
- Compliance with state and University guidelines regarding payroll (10 departments)
- Compliance with state rules governing the existence and authorized amounts of funds held in out of state bank accounts (accounting operations)
- College of Arts and Sciences, Atmospheric Sciences – personal use of state assets
- Compliance with state regulations for travel expenditures (two departments)
- Review of University officials' compliance with disclosure and conflict of interest laws (University-wide)
- Compliance with federal and University policy for pricing goods or services provided to federally sponsored projects by specialized service facilities (Cloud & Aerosol Recharge Center)
- Compliance with state capital construction requirements (Capital Projects Office)
- Compliance with state personal services contracting requirements (two departments)
- Compliance with state purchased services contracting requirements (seven departments)

## INTERNAL CONTROL

We evaluated controls in the departments audited for compliance with state and University requirements. In addition, we evaluated and tested internal controls in the following departments:

- Admissions (temporary employee timesheets)
- Applied Physics Lab (grant expenditures and cash receipts through program income activities)
- Atmospheric Sciences (petty cash and recharge center operation)
- Center for Women in Science and Engineering (petty cash)
- Civil and Environmental Engineering (grant expenditures)
- College of Forest Resources (cash receipts and petty cash)
- Computing and Communications (purchased services contracts)
- Educational Outreach (temporary employee timesheets and purchased services contracts)
- Environmental Health Continuing Education (cash receipts)
- Epidemiology (petty cash and grant expenditures)
- Extended Masters of Public Health (cash receipts)
- International Programs and Exchanges (cash receipts)
- Law School (cash receipts, petty cash and payroll)
- Material Management (purchased services contracts)
- Neurological Surgery (petty cash)
- Neurology (payroll, travel, and grant expenditures)
- News and Community Relations (purchased services contracts)
- Oceanography (purchased services contracts)
- Office of Development (temporary employee timesheets)
- Parking Services (cash receipts)
- Pharmaceuticals (travel and grant expenditures)
- Radiology (grant expenditures)
- Real Estate Office (personal services contracting)
- Recreational Sports Program (cash receipts and student and activity fees)
- Regional Primate Research Center (purchased services contracts)
- School of Medicine – Dean's Office (cash receipts)
- Student Financial Aid (refunds and repayments)
- University Libraries (temporary employee timesheets)
- University Stores (temporary employee timesheets)
- University Temporary Services (timesheets)
- UW Police Department (petty cash)

Some University departments have multiple locations and/or significant activity that may represent a risk of noncompliance, misappropriation or misuse. In keeping with general auditing practices, we do not examine every portion of these departments' financial activities during each audit. Areas of risk are audited on a rotating basis over the course of several years. Departments audited in this manner during the current audit include:

- Capital Projects Office (internal controls regarding contracts, change orders and project cost overruns)
- Housing and Food Services (cash receipts, accounts receivable and billing, and payroll)
- University of Washington Medical Center (cash receipts, petty cash, billing, payroll, purchasing, safeguarding of patient valuables at multiple locations)

We also audited the University's internal controls over processing transactions and information through central departments, including:

- Accounts payable
- Accounting operations
- Computing and communications
- Equipment inventory office
- Financial accounting
- Financial analysis
- Financial management
- Grant and contract accounting
- Grant and contract services
- Payroll office
- Purchasing department
- Student accounts office
- Travel office

## ***FINANCIAL AREAS***

In auditing the state's financial statements, we reviewed certain University account balances considered material to the state. Whenever possible, we reviewed and relied on work performed by other University auditors.

The results of the University's financial activities are reflected in the state of Washington's general purpose financial statements. Those statements are audited separately and reported in the state's Comprehensive Annual Financial Report issued by the Office of Financial Management.

## ***FEDERAL PROGRAMS***

For federal purposes, we audit the state as a single entity. The results are reported under separate cover as the Statewide Single Audit Report. For the year 2000, there were no major statewide programs or program clusters selected for review at the University. However, as indicated in the legal compliance section, six University departments were tested for federal compliance requirements.

During fiscal year 2000, the University disbursed \$129 million in federal student financial aid funds. We evaluated and tested controls and compliance with federal laws and regulations governing the awarding and monitoring of federal financial aid funds in the Office of Student Financial Aid.



# Audit Overview

## University of Washington July 1, 1999 through June 30, 2000

### **AUDIT HISTORY**

We audit the University of Washington annually. Although the past six audits of the University have reported areas of concern, findings have decreased from a high of 23 in 1994 to a low of one each in 1998 and 1999.

In response to each of these reports, University administrators took steps to make improvements and correct conditions noted in the findings. Concerns related to federal research and financial aid programs accounted for 18 findings between 1993 and 1995, and none in 1996–99. In 1994, University administrators approved the Faculty Grants Management Program to assist faculty investigators and researchers with the financial aspects of grant management. Attendance at the Faculty Grants Management workshops resulted in an increased awareness and commitment to fiscal responsibility, as evidenced by the sharp decline in the number of audit findings. The University received national recognition for this program in 1996, winning a Resource Enhancement award from the National Association of College and University Business Officers for program development and demonstrated improvements in efficiency, productivity, and reduction of audit deficiencies. Payroll and related benefits continue to make up the largest percentage of annual expenditures at the University. The University pays approximately 27,000 employees per pay period. In 1997, the University implemented procedures for on-line processing of payroll transactions. The University continues to implement new web-based applications for processing financial transactions.

In response to the fact that fraud and falsification accounted for 17 findings over the past six years, the University offers classes designed to teach managers how to prevent fraud and instituted a fraud reporting policy in 1997. Minor frauds continue to occur on campus. For example, there was a misappropriation of funds at Housing and Food Services totaling at least \$5,410 and a misappropriation of \$1,218 in the College of Architecture and Urban Planning. Each of the frauds was initially detected and investigated by University personnel.

### **CONCLUSIONS**

In most areas, the University complied with state laws and regulations, its own policies and procedures, and federal financial assistance requirements.

Safeguarding assets continued to be a major focus of our audit. We reviewed the University's internal controls over cash receipting and petty cash in multiple locations. The University annually collects approximately \$758 million in payments at more than 356 departments and divisions, and processes approximately \$16 million in expenditures through petty cash (revolving) funds. During the previous audit period, University administrators established guidelines requiring minimum internal controls over cash receipting. These guidelines were communicated to the University's 400-plus departments to increase awareness of the potential for fraud and abuse, thereby increasing the ability of department managers to detect such occurrences in a timely manner. We did note instances in which the policy had not been effectively communicated to staff actually collecting and accounting for cash receipts. University management continues to work to improve cash handling controls in the departments. During the current audit, the University developed and offered a training class on controls over cash handling procedures. We will continue in our focus of safeguarding cash receipts and petty cash in future audits.

Our audit included a review of how some of the University's major departments implemented internal controls to safeguard assets and ensure compliance with policies and regulations. We found the Capital Projects Office maintains a strong professional environment as they effectively manage the University's varied and complex construction projects. The Medical Center continues to address the challenges posed by new laws and regulations and yet provides quality administrative and fiscal services in a large, decentralized environment.

At the Purchasing Office, we reviewed the internal controls and tested for compliance with the state rules and regulations over personal services and purchased services contracting. We found the Purchasing Office has a comprehensive understanding of the risks associated with purchased and personal services contracting, and noted that the Purchasing Office has strong internal controls over personal service contracts and purchased service contracts.

The Washington State Auditor's Office administers the state's whistleblower program. During this period, we reviewed six whistleblower assertions at the University and substantiated only one of those. Throughout these investigations, senior University management was very cooperative and provided immediate support to resolving any serious concerns raised regarding compliance with state laws.

We appreciate the University's prompt attention to resolving prior audit issues and its commitment to establish strong internal controls and ensure compliance in a highly decentralized organization. We thank University officials and personnel for their assistance and cooperation during the audit.

# Status of Prior Audit Findings

## University of Washington July 1, 1999 through June 30, 2000

The status of findings contained in prior audit reports of the University of Washington is provided below:

Findings this audit: 0  
Findings last audit: 1  
Number of repeat findings: 0

- 1. Public funds were misappropriated, documents were falsified and authorizing signatures were forged at the University of Washington's Administrative Support Services Department.**

### Background

In October 1998, we were notified by the Director of the Department of Audits (internal audit) of a potential misappropriation at the University. Based upon the investigation, the internal auditor concluded a former program coordinator misappropriated at least \$2,344 through petty cash expenditures at the University's Administrative Support Services. Federal funds were not involved. The finding addressed internal control weaknesses that allowed the fraud to occur and remain undetected for over a year.

### Status

During the last audit, the University has recovered the funds misappropriated. The case was referred to the King County Prosecuting Attorney, charges were filed, and the case has been resolved. We considered the finding resolved.